

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 SAJ-01 NIC-01 AID-05 EB-07 FRB-03 TRSE-00

XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 AEC-05

FEA-01 FPC-01 INT-05 OES-03 /111 W
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R 060906Z FEB 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2642

DEPT OF COMMERCE WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

USMISSION GENEVA

AMEMBASSY MOSCOW

AMCONSUL MUNICH

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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E.O. 11652: N/A

TAGS: ETRD, HU

SUBJ: HUNGARY'S 1974 FOREIGN TRADE DEFICIT

GENEVA FOR MTN DELEGATION

1. SUMMARY: PRELIMINARY FIGURES INDICATE THAT HUNGARIAN
FOREIGN TRADE DEFICIT IN TRADE WITH NON-SOCIALIST COUNTRIES
DURING 1974 WILL BE 6.3 BILLION DEVISA FORINTS (DFT) OR
ALMOST \$700 MILLION WHEN CONVERTED AT CURRENT OFFICIAL RATE
(9.05 DFT EQUALS \$1). THIS FIGURE APPEARS TO BE SOMEWHAT LARGER

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THAN EXPECTED AS IT EXCEEDS ALL ESTIMATES PREVIOUSLY GIVEN
TO US BY HUNGARIAN OFFICIALS, MOST OF WHOM HAD BEEN

PREDICTING DEFICITS BETWEEN \$250-450 MILLION. SIZE OF DEFICIT WILL ALMOST CERTAINLY STIMULATE FURTHER EFFORTS TO REDUCE RATE OF INCREASE OF WESTERN IMPORTS DURING COMING YEAR THROUGH TIGHT CREDIT POLICIES AND POSSIBLY OTHER CENTRAL MEASURES TO MONITOR ENTERPRISES EXPENDITURES. ACCORDING TO SAME PRELIMINARY STATISTICS, HUNGARY ATTAINED 3.4 BILLION DFT SURPLUS IN TRADE WITH CEMA PARTNERS -- A FIGURE CONSIDERABLY SMALLER THAN LAST YEAR'S SURPLUS. THIS REDUCTION DUE TO INTENSIFIED HUNGARIAN EFFORTS TO INCREASE IMPORTS, PARTICULARLY OF MACHINERY, FROM OTHER CEMA COUNTRIES, WHICH STIMULATED 20 PERCENT OVERALL GROWTH IN SOCIALIST COUNTRY IMPORTS DURING 1974 WHILE EXPORTS GREW AT RATE OF ONLY 10 PERCENT. END SUMMARY

2. PRELIMINARY STATISTICS INDICATE THAT HUNGARY'S TRADE DEFICIT WITH NON-CEMA COUNTRIES IN 1974 WILL BE THE LARGEST IN HISTORY WITH IMPORTS EXCEEDING EXPORTS BY 6.3 BILLION DFT (ABOUT \$700 MILLION). LARGE DEFICIT PRIMARILY THE RESULT OF HUGE JUMPS IN COST OF ESSENTIAL IMPORTS SUCH AS CRUDE OIL, CHEMICALS, METALS AND SYNTHETIC FIBERS AND CORRESPONDINGLY SMALLER RISES IN PRICES FOR STAPLE HUNGARIAN EXPORTS SUCH AS LIGHT INDUSTRIAL PRODUCTS, CONSUMER GOODS AND PROCESSED FOOD. IN 1974 HUNGARIAN IMPORTS FROM NON-SOCIALIST COUNTRIES ROSE BY OVER 60 PERCENT TO 21.8 BILLION DFT (\$2.41 BILLION), WHILE IMPORTS WENT UP BY ONLY 17 PERCENT TO 15.5 BILLION DFT (\$1.72 BILLION). IMPORTS FROM NON-SOCIALIST COUNTRIES OF SO-CALLED ENERGY CARRIERS (PRINCIPALLY OIL AND ELECTRIC ENERGY) TRIPLED IN VALUE TERMS IN 1974, WHILE PURCHASES OF OTHER RAW MATERIALS, SEMI-FINISHED GOODS AND COMPONENT PARTS ROSE BY 70 PERCENT. IN ADDITION, IMPORTS OF MACHINES, TRANSPORTATION VEHICLES AND INVESTMENT GOODS WENT UP 40 PERCENT WHILE CONSUMER GOODS PURCHASES SHOWED A 25 PERCENT INCREASE. ON EXPORT SIDE, HUNGARY WAS NOT ONLY HURT BY RELATIVELY SLOW RISE IN PRICE OF ITS EXPORTS BUT WAS STUNG BADLY BY EEC'S BAN ON MEAT IMPORTS WHICH EFFECTIVELY CLOSED FOR MOST OF THE YEAR A MARKET WHICH HAD YIELDED OVER \$200 MILLION IN HARD CURRENCY REVENUE DURING 1973. WHILE HUNGARIANS WERE ABLE TO SELL SUBSTANTIAL QUANTITIES OF BEEF TO THE SOVIET UNION FOR HARD LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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CURRENCY DURING THE SECOND HALF OF 1974, THIS WAS NOT SUFFICIENT TO COMPENSATE FOR THE LOSS OF THE LUCRATIVE ITALIAN AND OTHER WEST EUROPEAN MARKETS. IN ALL, HUNGARIAN TERMS OF TRADE ARE SAID TO HAVE DETERIORATED BY 14 PERCENT DURING THE PAST YEAR.

3. THE PICTURE IS CONSIDERABLY BRIGHTER REGARDING HUNGARY'S TRADE WITH OTHER SOCIALIST COUNTRIES WHERE EXPORTS TOTALED 31.6 BILLION DFT IN COMPARISON TO IMPORTS OF 28.2 BILLION DFT. THROUGH CONCERTED EFFORTS TO ENCOURAGE HUNGARIAN

ENTERPRISES TO INCREASE PURCHASES FROM SOCIALIST COUNTRIES,,
SUCH AS OFFERING VERY FAVORABLE CREDIT TERMS FOR CEMA
MACHINERY PURCHASES, HUNGARIANS WERE ABLE TO SUBSTANTIALLY
REDUCE EXCESSIVELY LARGE TRADE SURPLUS REGISTERED IN 1973.
OVERALL VALUE RISE FOR SOCIALIST IMPORTS WAS 20 PERCENT WITH
PURCHASES OF MACHINERY, TRANSPORTATION EQUIPMENT, AND
INVESTMENT GOODS, INCREASING BY OVER 30 PERCENT EACH. IMPORTS OF
CONSUMER ARTICLES FROM OTHER SOCIALIST COUNTRIES ROSE 20 PERCENT
WHILE ENERGY, RAW MATERIAL AND SEMI-FINISHED GOODS PUR-
CHASES WENT UP ONLY 10 PERCENT IN VALUE. ON THE EXPORT SIDE,
SALES OF HUNGARIAN FOOD, LIVESTOCK AND FOOD MACHINERY
JUMPED 25 PERCENT -- PARTIALLY AS A RESULT OF HUNGARIAN BEEF SALES
TO USSR -- WHILE EXPORT OF MACHINERY TRANSPORT EQUIPMENT
AND INVESTMENT GOODS SHOWED AN 11 PERCENT GAIN. OVERALL EXPORTS
TO THE REST OF THE SOCIALIST WORLD INCREASED SLIGHTLY LESS
THAN 10 PERCENT.

4. COMMENT: IT SHOULD BE POINTED OUT THAT ABOVE PRE-
LIMINARY STATISTICS, UNLIKE OFFICIAL CENTRAL STATISTICAL
OFFICE (CSO) FIGURES GENERALLY USED BY EMBASSY, DIVIDE
HUNGARIAN TRADE BETWEEN SOCIALIST AND NON-SOCIALIST COUN-
TRIES RATHER THAN BREAKING IT DOWN ON BASIS OF RUBLE AND
DOLLAR GOODS EXCHANGES. AS HUNGARY NORMALLY REGISTERS
POSITIVE BALANCE IN ITS SIZABLE DOLLAR TRADE WITH CEMA
PARTNERS, WE EXPECT OVERALL HARD CURRENCY DEFICIT FOR
1974 TO BE SOMEWHAT LESS THAN \$700 MILLION FIGURE CITED
ABOVE AND PROBABLY IN THE NEIGHBORHOOD OF \$550 MILLION.
CSO FIGURES SHOULD BE AVAILABLE IN ABOUT THREE WEEKS TIME.

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

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XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 AEC-05

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R 060906Z FEB 75
FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 2643
DEPT OF COMMERCE WASHDC
INFO AMEMBASSY BELGRADE
AMEMBASSY BUCHAREST
USMISSION GENEVA
AMEMBASSY MOSCOW
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5. YET NO MATTER WHAT MEASURING STICK IS USED, IT APPEARS CLEAR TO US THAT FOREIGN TRADE DEFICIT FOR 1974 SIGNIFICANTLY LARGER THAN ORIGINALLY ANTICIPATED. HUNGARIAN OFFICIALS WITH WHOM WE HAVE SPOKEN IN RECENT MONTHS HAVE TOLD US TRADE DEFICIT WITH WEST WOULD BE IN \$250-400 MILLION RANGE AND WE HAVE YET TO RECEIVE ANY ESTIMATES CLOSE TO NOW PUBLISHED FIGURES. LARGE DEFICIT WILL ALMOST CERTAINLY STIMULATE FURTHER INTENSIFICATION OF EFFORTS TO REDUCE RATE OF INCREASE OF WESTERN IMPORTS DURING THE COMING YEAR THROUGH TIGHTER CREDITS AND CLOSER CENTRAL SUPERVISION OF ENTERPRISE PURCHASING POLICIES AND DEVELOPMENT PLANS. BANK
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CREDITS FOR HARD CURRENCY PURCHASES ARE ALREADY TIGHT AND AMERICAN BUSINESSMEN HAVE REPORTED TO US THAT A NUMBER OF INVESTMENT PROJECTS, PARTICULARLY IN AREAS SUCH AS CHEMICALS AND RUBBER WHERE LARGE QUANTITIES OF RAW MATERIALS MUST BE PURCHASED FOR HARD CURRENCY, ARE BEING POSTPONED. YET NARROWING TRADE DEFICIT BY CURBING IMPORT GROWTH THROUGH TIGHT CREDIT, WHICH WAS SUCCESSFUL IN SWIFTLY TURNING AROUND LARGE 1971 TRADE DEFICIT, MAY NOT BE AS EASY TO MANAGE IN 1975. THE EEC'S BEEF IMPORT RESTRICTIONS WHICH HURT HUNGARY SO MUCH LAST YEAR ARE STILL IN EFFECT AND HUNGARIANS APPEAR TO BE RESIGNED TO FACING THIS PARTICULAR OBSTACLE FOR AT LEAST THE BETTER PART OF 1975. IN ADDITION TO MEAT, SLOWDOWN IN ECONOMIES OF MAJOR WEST EUROPEAN TRADING PARTNERS IS LIKELY TO SERIOUSLY REDUCE THE POTENTIAL FOR EXPANSION OF HUNGARIAN EXPORTS TO THESE COUNTRIES. SIMULTANEOUSLY, INCREASED CAPACITY AND HIGH RATES OF UNEMPLOYMENT IN WESTERN EUROPE WILL UNDOUBTEDLY HAVE NEGATIVE EFFECT UPON WILLINGNESS OF WESTERN FIRMS TO ENTER INTO PRODUCTION-SHARING OR COOPERATION AGREEMENTS, WHICH HUNGARIANS TO DATE HAVE USED EFFECTIVELY TO MINIMIZE HARD

CURRENCY EXPENDITURES.

6. FINALLY, RECENTLY IMPOSED PRODUCER PRICE INCREASES AND EXPORT TAX ARE ALSO LIKELY TO HAVE AT LEAST SHORT-TERM DAPENING EFFECT ON EXPORTS TO WEST FORCING ENTERPRISES TO RAISE PRICES AND IN SOME CASES CEASE EXPORT ALTOGETHER. WHILE RATIONALE BEHIND PRICE INCREASES AND EXPORT TAX IS ECONOMICALLY SOUND -- PURPOSE OF EXPORT TAX IS TO FORCE ENTERPRISES TO PARTIALLY REIMBURSE GOVERNMENT FOR RAW MATERIALS AND SEMI-FINISHED PRODUCTS OBTAINED DOMESTICALLY AT SUBSIDIZED PRICES AND THEN USED IN FINISHED PRODUCTS EXPORTED TO NON-CEMA COUNTRIES -- AMERICAN BUSINESSMEN CLAIM THAT THESE MEASURES HAVE CAUSED LARGE RECENT JUMP IN HUNGARIAN EXPORT PRICES. ONE U.S. REPRESENTATIVE OF VERY LARGE AMERICAN FIRM WHICH IMPORTS SUBSTANTIAL QUANTITIES OF APPLIANCES FROM HUNGARY TO BE SOLD IN WESTERN EUROPE TOLD EMBOFF LAST WEEK THAT CURRENT HUNGARIAN PRICES FOR PRODUCTS HE WISHED TO PURCHASE WERE 25-30 PERCENT HIGHER THAN FIVE MONTHS AGO AND THAT FORMERLY COMPETITIVELY PRICED REAR AXLES MADE BY RABA-GYOR -- ONE OF HUNGARY'S MOST EFFICIENT INDUSTRIAL PRODUCERS -- ARE NOW 30 PERCENT LIMITED OFFICIAL USE

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HIGHER THAN COMPARABLE FRENCH PRODUCT.

7. IF THE ABOVE WERE NOT ENOUGH THE SPECTRE OF A MARKED DETERIORATION IN HUNGARY'S TERMS OF TRADE WITH THE SOVIET UNION WHENEVER CEMA PRICES ARE RAISED ADDS FURTHER GLOOM TO THE FOREIGN TRADE OUTLOOK AND THREATENS TO CUT MORE DEEPLY INTO THE FUTURE RATE OF GROWTH OF NATIONAL INCOME WHICH IN 1974 WAS REVISED DOWNWARD FROM 6 PERCENT TO 4 PERCENT TO TAKE INTO ACCOUNT DETERIORATION IN HUNGARIAN TERMS OF TRADE WITH WEST. AT THIS JUNCTURE THE PROSPECTS APPEAR TO BE GOOD THAT HUNGARY'S ONCE VIGOROUS GROWTH RATE WILL SLOW TO A CRAWL DURING THE NEXT FEW YEARS AND IT IS NOW HARD TO SEE HOW HUNGARY WILL ACHIEVE 25 PERCENT REAL GROWTH BETWEEN 1976-1980 AS SUGGESTED BY THE GUIDELINES FOR THE NEXT FIVE-YEAR PLAN PUBLISHED IN DECEMBER. HUNGARIAN ECONOMISTS THEMSELVES APPEAR TO HAVE SERIOUS DOUBTS ON THIS SCORE AND ONE WELL-INFORMED AND UNUSUALLY FRANK ECONOMIC WRITER RECENTLY COMMENTED TO THE REPORTING OFFICER "THAT THOSE STATISTICS DON'T NECESSARILY MEAN A THING AS THE GOVERNMENT CAN TELL THE POPULATION WHATEVER IT WANTS. THE TRUTH OF THE MATTER IS THAT WE ARE IN FOR A PERIOD OF VERY SLOW GROWTH AND PERHAPS NO GROWTH."

8. PRESENTLY THE BRIGHTEST SPOT IN THE EXPORT PICTURE IS THE RECENTLY DISCOVERED MARKETS OF THE OPEC COUNTRIES AND A MAJOR EXPORT PROMOTION EFFORT IS BEING MADE TO ENCOURAGE THE EXPENDITURE OF PETRO-DOLLARS ON HUNGARIAN

GOODS. YET WHILE HOPES HERE ARE HIGH, COMPETITION TO DATE
HAS BEEN TOUGH AND PICKINGS RELATIVELY SLIM AS AGREEMENTS
WITH OIL-PRODUCING COUNTRIES ANNOUNCED THUS FAR -- WITH
EXCEPTION OF \$40 MILLION LOAN FROM KUWAIT -- HAVE TENDED
TO BE MORE SYMBOLIC THAN SUBSTANTIVE.
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